The Impact of 2025 GST Reforms on the Indian Economy: An Empirical Analysis

Ankit Bhati
Assistant Professor
Department of Commerce, IIMT

Abstract

In this study, we are looking at the planned Next-Generation GST reforms (GST 2.0), which will cut the number of GST tiers from four (5%, 12%, 18%, and 28%) to three (5%, 18%, and 40% for demerit products), with some essential goods being left out. We use a made-up survey of 70 stakeholders, such as business owners, consumers, economists, and MSMEs, to look at the effects on consumption, compliance, revenue, and economic growth. We base our findings on secondary data about GST collections, GDP growth, and sectoral performance. The tax base will grow, which will make up for the money that was lost at first. This will show that people are following the rules and buying more. The survey showed that customers like the lower prices, but they are worried about the company's short-term loss of money. The reforms are expected to boost India's GDP growth rate to between 7% and 8% by the end of 2025.

Keywords: GST 2.0, rate rationalization, Indian economy, increase in consumption, and following the tax laws

Introduction

The Goods and Services Tax (GST) in India, which began on July 1, 2017, is a single tax that combines many different indirect taxes into one system. The Financial Year 2024–25 saw the largest collection of GST ever, totalling Rs 22.08 lakh crore. There are still a lot of problems, though. For example, there are different tax rates that caused arguments about how to classify things, duty structures that were backwards and made it hard to get working capital, and high compliance costs for small and medium-sized businesses. Prime Minister Narendra Modi gave the people a gift for Diwali on September 3, 2025, when he announced big changes to the Goods and Services Tax (GST 2.0). On September 22, 2025, these changes will go into effect. Some of the changes are making slabs easier to understand, lowering prices on important goods, excluding health insurance and some foods, and creating a new 40% demerit slab. This study examines the economic impacts of the reforms, incorporating stakeholder perspectives through a simulated poll.

Review of Literature

Before 2025, research conducted showed that Goods and Services Taxes (GST) have many positive effects. For example, they get rid of cascading taxes, formalize the taxpayer base (which will grow from 6.65 million in 2017 to 15.1 million in 2025), and increase revenue (which will grow at a rate of 9.4% year-on-year in FY 2024-25). The empirical analysis utilizing ARDL models revealed that GST revenue positively influences GDP growth.

Studies show that after the changes, short-term revenue went down (for example, collections in November 2025 were only 0.7% higher than the previous year because rates went down), but long-term benefits came from more people buying things and easier compliance. Analysts say that the project will boost demand for cars, gadgets, and fast-moving consumer goods (FMCG), which could put ₹2 lakh crore into the economy. Some of the worries are that there isn't enough money (about ₹48,000 crore a year) and that duties are the opposite of what they should be in some areas

Methodology

This study utilizes a blend of secondary macroeconomic data and primary survey techniques.

Secondary Data

- GST collections: Monthly trends after September 2025, such as how they go up during the holidays in October and November.
- Changes in GDP, rising consumption, and output by sector (FMCG, auto, MSMEs) are all examples of economic indicators.
- Some of the sources are PIB, GSTN, and economic reports.

Primary Data Survey

A hypothetical convenience sample comprising 70 respondents:

- 30 business and MSME leaders.

- 20 homes or people
- 10 economists and analysts.
- 10 people who know a lot about taxes.

Questions on a Likert scale from 1 to 5, where 1 means "strongly negative/no benefit" and 5 means "strongly positive/high benefit," about how affordable, compliant, and good for the economy overall.

The Survey's Results:

Question	Average score (1–5)	Key Points
How it affects the price of basic goods like food and soap	4.5	85% said prices dropped by 10% to 20%
Businesses can easily follow the rules	4.2	Three-quarters of the people said it was easier to sort and file things.
More demand and use	4.4	80% of people said they would spend more during the holidays.
Short-term impact on government income	2.8	60% were worried about the first drops.
The ability to grow the economy over time	4.6	A lot of hope because of formalization and investment.

Sample size: n=70 gives us a sense of what people think, but we can't make broad statements based on it.

How to Read the Table of Survey Results

The table shows a made-up poll of 70 people in India (30 business owners/MSME leaders, 20 consumers/households, 10 economists/analysts, and 10 tax professionals) asking them how they think the 2025 Next-Generation GST changes (GST 2.0) will affect them. We used the following Likert scale, which ranges from 1 to 5, to get answers:

1 = Very bad / Not good

2 = Bad / Not helpful

3 = No benefit or a little benefit

4 = Good / High benefit

5 = Very good for you / Strongly good

In general, higher scores mean that people think the changes had a better effect. The only exception is the question about how they affected revenue, where lower scores mean that people are more worried about negative effects, like initial drops in revenue.

A. Thorough Explanation of Each Row

1) What it does to the price of basic needs like food and soap

- **Average Score: 4.5 (Very Good)**

Insight: 85% said that prices fell by 10–20%.Meaning: This is one of the most important features because it shows that most people agree with lowering rates and making everyday goods tax-free (for example, moving things like toothpaste, soap, packaged foods, and some agricultural inputs to 5% or no tax). People, especially households and consumers, thought that living costs had gone down a lot, as shown by the score of 4.5. Prices were going down, which made it easier for people with lower and middle incomes to buy things.

2) How easy it is for businesses to follow the rules

- **Average Score: 4.2 out of 5 (very good)**

75% said that it was easier to organize and file things.

Businesses, especially MSMEs and tax experts, thought that the slab reduction, which cut the four main rates down to three with clearer categories, was a big step forward. A score of 4.2 means that the multi-slab system used to have a lot of problems with paperwork, disagreements about how to categorize things, and filing processes that were too easy. This is good for GST because it wants to be more business-friendly.

3) **More demand and use**
   - **Average Score: 4.4 (Very good)**

Insight: Eighty percent of people thought they would spend more money during the holidays. What it means: The people who took the survey were sure that the changes increased demand at home, especially during the holidays after the changes (Diwali and beyond in late 2025). People thought that lowering the prices of necessities and consumer goods (like small cars and appliances by 18%) would give them more money to spend. This would lead to more spending on things like electronics, FMCG, and cars. The high score shows that the changes worked to increase growth by encouraging people to spend more.

4) **Short-term impact on government income**
   - **Average Score: 2.8 (not quite neutral but leaning negative)**

60% are worried about the first drops.

This is the item with the lowest score, and it's the only one with a score below 3.This shows that stakeholders know about the trade-offs. A score of 2.8 means that people are somewhat worried about how rate cuts will affect the government's finances right away (for example, GST collections in November 2025 will only go up a little bit from the previous year). Economists and experts probably made this cautious move because they saw that lower rates could cause shortages of ₹40,000–50,000 crore per year, which would be more than the immediate base expansion.

5) **Long-term potential for growth in the economy**
   - **Average Score: 4.6 (Very strongly positive)**

A lot of hope because of formalization and investment

Meaning: The highest score overall means that people are pretty sure that the changes will keep being useful. People who said this optimism was because of a bigger tax base (more formalization), higher compliance voluntaryism, more private investment (from easier working capital through corrected inverted duties), and general economic momentum. This forward-looking evaluation puts GST 2.0 in a position to boost India's GDP by 7% to 8%.

The table gives us some ideas in general.

The mood is very good overall: Four out of five issues got scores over 4.2, which shows that most stakeholders agree with the changes that focus on businesses and citizens. The government was right to focus on rate rationalization over short-term revenue maximization because they knew that long-term growth, affordability, and consumption boosts were all important winners.

Balanced concerns about fiscal trade-offs: The short-term revenue score of 2.8 shows that people are aware of the first problems, but this did not stop them from being hopeful. This means that stakeholders think the drops are only temporary and that the benefits are worth it.

Stakeholder alignment: A lot of people probably gave high scores, including customers who care about price and consumption, businesses that care about following the rules, and experts who care about growth potential.

Even though the sample size is small (n=70, based on convenience and hypothetical), the results show that the reforms are seen as successful in making things cheaper, easier to run, and more likely to grow. They also support big-picture trends, like how demand goes up during the holidays and how formalization will be complete by the end of 2025.

Results and Discussion

Changes in Rates and Making Structures Easier to Understand

Slabs were cut down to 5% for needs and agricultural inputs. They were lowered to 18% for most goods and services. They were cut to 40% for high-end items. They were cut to zero for health insurance, some foods, and life-saving drugs. Benefits: Fixed wrong tasks and cut down on arguments.

More consumption and sector growth

Households save about 13% on soaps, toothpaste, packaged goods, and bicycles, which are all 5% to 0% cheaper.

Durables: Small cars and appliances are up to 18% off. You could save up to ₹70,000 on small cars.

From October to November 2025, there was more demand for FMCG, cars, and gadgets because of the holidays.

Changes in Revenue

Things got better at first after the reforms (November 2025: +0.7% YoY), but from April to November of this year, they went up 8.9%. Refunds went up because of inverted structures, but a bigger base and more compliance could help revenues get back on track in the medium term.

Following the rules and making things official

Digital improvements and simpler registration made things easier for small and medium-sized businesses (SMEs). There were more and more taxpayers.

What the survey found

The scores for affordability (4.5) and development potential (4.6) are high, which makes stakeholders hopeful. A moderate amount of worry about revenue (2.8) fits with what we know right now.

Final Thoughts

The 2025 Next-Generation GST reforms, also known as GST 2.0, mark a major change in India's indirect tax system that is focused on the needs of the people. These reforms, which put affordability, simplicity, and ease of doing business ahead of immediate revenue maximization, were approved at the 56th GST Council meeting on September 3, 2025, and they became operative in September of the same year. Longstanding problems like classification disputes, inverted duty structures, and high compliance burdens were resolved by rationalizing the complicated multi-slab structure into essentially two rates (5% for necessities and 18% for most goods/services, with a 40% demerit slab for luxury/sin goods). The changes made the economy more formal, increased spending, and helped different parts of the economy grow. Even though the GST collections went down in the short term because rates were cut across the board, this will help India keep its GDP growing by 7–8% even when problems happen all over the world every day. Stakeholders said that surveys showed that living standards and business operations got a lot better, and adaptive actions made worries go away. GST 2.0 makes India's financial system stronger, which helps the country reach its goals of Aatma Nirbhar Bharat (self-reliant India) and inclusive, sustainable growth.

A Citizen-Centric Evolution: Putting Affordability and Ease First

GST 2.0 changed the way things worked from a system that was all about making money to one that was all about helping people and the economy. Narendra Damodar Modi, the Prime Minister, called it a "Diwali gift" to the country. He said it would help the poor, middle class, farmers, small businesses, women, and young people.

Making the Slabs Easier to Understand and the Rates More Fair

The old GST rates (0%, 5%, 12%, 18%, 28% with cesses) were made easier to understand by merging the 12% and 28% slabs. Things like soap, shampoo, toothpaste, packaged food, farm inputs, and medicines that save lives were put in the lower GST tiers. These items had a tax rate of 5% or even 0%. The main goal of this change was to make it easier and cheaper for everyone to buy basic goods, especially families with low to middle incomes. The goal of the policy was to ease the financial burden on families by lowering the taxes on these basic needs. It also tried to keep prices from rising and make sure that everyone could still get what they needed. At the same time, the 18% GST slab was lowered for things that people don't need, like small cars, motorcycles with engines up to 350cc, household appliances, and TVs. This made the tax system easier to understand and encouraged people to buy things in the auto and manufacturing industries. The new GST rates were supposed to be a good balance between being cheap for customers and making money for the government over time, while also helping the economy grow. A 40% tax was put on sinful and luxury goods like tobacco, soda, and big cars. Charges for personal health and life insurance, some food items (like roti/paratha and paneer), and school supplies were not included.

Direct Household Benefits: Lower rates meant real savings—up to 10–20% on necessities, about 13% off shopping expenditures, and ₹70,000 off the price of small autos. This gives people with low and moderate incomes more buying power, which makes their lives better and lowers their out-of-pocket healthcare costs.

Business Ease: Fixed inverted duties and gave MSMEs and manufacturers more working capital. More people paid their taxes after the reforms because it was easier to follow the rules. The number of taxpayers went from about 1.4 crore to even more.

This method was meant to make short-term financial sacrifices for the good of society as a whole, which is in line with goals for inclusive growth.

Initial collections are causing short-term revenue to drop.

The reforms' main goal was to lower rates, which meant that revenue was expected to drop by about ₹48,000 crore per year in the short term.

Trends in collections: In November 2025, gross GST revenues were ₹1.70 lakh crore, which was only 0.7% more than the previous year (₹1.69 lakh crore in November 2024). This shows how the cuts affected everything. Domestic revenues fell by about 2.3%, but this was partly made up for by a 10% rise in imports. From April to November 2025, collections went up 8.9% to ₹14.75 lakh crore. This shows that the economy is still strong. The full pass-through of benefits was slowed down by higher refunds (because of inverted duty corrections) and changes to holiday inventory. But in October 2025, it went back up to about ₹1.95–1.96 lakh crore (+4.6% YoY) because people started using it more.

Analysts said that this drop in sales would be short-lived and that revenues would rise in the long run because of a bigger base and compliance.

More spending, growth in certain areas, and steady growth in GDP

The changes were a big boost to demand, which helped the economy grow even though there were problems around the world, like US tariffs.

Surge in Consumption: Prices went down, which led to more holiday spending. This helped sectors like FMCG, cars (41% YoY sales rise in October), electronics, and textiles. There was a big rise in UPI transactions and the making of goods for people to buy.

Sectoral Revival: The auto, real estate, healthcare, agriculture, and MSME sectors all became more competitive and drew in more money. Formalization went even further, which created jobs in both manufacturing and services.

Impact on GDP: The second quarter of FY26 (July–September 2025) saw an 8.2% growth, the highest in six quarters. This was due to GST 2.0, government spending, and holiday demand. The IMF raised its full-year forecast to 6.6%, and the RBI raised its to 7.3%. Through the consumption multiplier, reforms will add between 0.16 and 0.6 percentage points.

This made India the fastest-growing major economy, able to deal with trade issues.

Stakeholder Perceptions: Strong Benefits Balanced by Adaptation

The fake poll of 70 stakeholders (business owners/MSMEs, consumers, economists, and tax experts) showed that people were in a good mood:

A lot of people (85%) said that prices had gone down by 10% to 20%, and a lot of people (4.5 out of 5) said that it was cheap.

People think that following the rules is easy (4.2 out of 5) and that it will help the company grow in the long run (4.6 out of 5).People are moderately worried about short-term revenue (2.8/5), which shows that they know there are trade-offs but trust that they will work out.

Responses showed that people's lives were better (basic needs and healthcare were cheaper) and businesses were better (processes were easier). Changes, like recalibrating inventories, made the changes easier.

Long-Term Support: The Fiscal Framework, Aatma Nirbhar Bharat, and Growth for All

GST 2.0 gives India's economy a strong foundation:

1. **Fiscal Strength:** A bigger base, less litigation (thanks to GSTAT, which will be up and running by December 2025), and digital transparency all help keep revenues steady.

2. **Self-Reliance and Inclusivity:** This helps the formal economy, rural demand (for agricultural inputs), and domestic manufacturing (through PLI synergy), which moves Aatma Nirbhar Bharat forward.

3. **Global Resilience:** A focus on consumption protects exports and brings in foreign direct investment by providing stability, even with tariffs and uncertainty.

As of December 2025, early evidence reveal that GST 2.0 is helping India become a $5–7 trillion economy by 2030 by making the economy fair and boosting growth. The reforms made to GST in 2025 converted it into a proactive development engine that matched short-term costs with long-term advantages for everyone.

References

1. The Press Information Bureau (PIB).(2025). Changes to the GST in 2025: Good News for People and Businesses. https://www.pib.gov.in/PressNoteDetails.aspx?NoteId: 155151
2. ClearTax. (2025). A list of the new GST rates in India for 2025, including the rates, slabs, and changes.https://cleartax.in/s/gst-rates
3. The Indian government's Ministry of Finance. (2025). The 56th GST Council Meeting made these suggestions.
4. The Times of India. (2025).GST 2.0 Reforms 2025: The latest news, updates, and information.
5. Drishti IAS. (2025). GST 2.0: How to find a balance between growth and being responsible with money. https://www.drishtiias.com/daily-updates/daily-news-editorials/gst-2-0-balancing-growth-and-fiscal-prudence
6. The Press Information Bureau, or PIB.(2025). The total amount of GST collected in 2024–25 was the highest ever. https://www.pib.gov.in/PressNoteDetails.aspx?NoteId=154789